Financial reporting quality and earnings management in Libyan banks: Stakeholders' perceptions

Citation for published version:
Barghathi, Y 2019, 'Financial reporting quality and earnings management in Libyan banks: Stakeholders' perceptions', *African Journal of Accounting, Auditing and Finance*, vol. 6, no. 3, pp. 177-200. https://doi.org/10.1504/AJAAF.2019.10020488

Digital Object Identifier (DOI):
10.1504/AJAAF.2019.10020488

Published In:
African Journal of Accounting, Auditing and Finance

Financial reporting quality and earnings management in Libyan banks: Stakeholders' perceptions

Yasser Barghathi
Accountancy, Economics, and Finance Department,
School of Social Sciences,
Heriot-Watt University, Dubai
Email: y.barghathi@hw.ac.uk

1. Introduction

The financial reporting quality issue has received repeated scrutiny in the wake of recent financial scandals and the collapse of high-profile institutions like Enron and WorldCom (Hong and Anderson, 2011). Due to these recent financial crises, as well as the audit failure in not detecting and preventing such behaviour, the accounting profession is experiencing a credibility crisis (Krishnan, 2005). The collapses of well-respected companies, according to Leventis and Dimitropoulos (2012) resulted in investors losing confidence in both corporate disclosure and capital market efficiency as they have "raised many concerns about the reliability of financial reporting and the efficiency of existing monitoring mechanisms" (Leventis and Dimitropoulos, 2012, p. 161). As a result, a number of regulations, including e.g. Sarbanes-Oxley Act have been developed in an attempt to limit the discretion of managers, regain public trust in financial reporting and ultimately improve accounting quality (Di Martino et. al., 2017).

The quality of financial information can be assessed by, amongst other things, the incidence of earnings management (Elias, 2012). For example, Barth et al. (2008), Chen et al. (2011), Zeghal et al. (2012) and Ahmed et al. (2013) all used earnings management as a proxy to test for accounting quality. The literature provides convincing evidence that the occurrence of earnings management works to the detriment of financial reporting quality. Earnings management reduces the reliability of financial information, which, in turn, lowers the quality of financial reporting (Ascioglu et al., 2012: Habbash et al., 2013).

Thus, the correlation between financial reporting quality and earnings management can be clearly stated as, *ceteris paribus*, the less the incidence of earnings management, the higher the quality of financial reporting.

The literature on how a researcher can detect earnings management is predominantly revolved around quantitative methods by which such practice can be measured although applying the quantitative approach requires a significant amount of data and work. Nevertheless, the existence of earnings management practices within the banking industry has been documented in the Western literature (Bornemann et al., 2012). However, earnings management related literature on developing countries, including Libya, is severely limited. In fact, there is a general paucity of research on financial reporting quality in Libya altogether (Zakari and Menacere, 2012; Sawan and Alsaqqa, 2013; Sawan and Alzeban, 2015, Barghathi et al., 2017a).

Given the paucity of relevant data in the Libyan context, this paper tests for earnings management, by Libyan Commercial Banks' (LCBs) managers, by deploying a different technique i.e. the qualitative approach. The qualitative approach has been widely adopted by academics to test for the existence of earnings management and, therefore, could be called the academic approach. In this approach, as will be discussed later, the research engages directly with the involved stakeholders, in order to examine perceptions of the existence of earnings management.

The paper is structured as follows: the next section provides a background for the study. This is followed by Section 3 that reports on the literature review on earnings management detection. Thereafter, Section 4 describes the research design. Research findings are then discussed in Section 5. And finally, Section 6 will summarize the research and provide discussion.

2. Background

Financial reporting regulations have an important role to play in this area. The IASB as a regulatory body, for example, affirms that the main objective of financial statements is the provision of useful financial information and it is making every effort to reduce flexibility in standards to restrict earnings management practices (Cotter, 2012). Accounting standards, according to Zhang et al. (2013), affect the level of earnings management e.g. they will determine the degree of managerial discretion with regard to revenue and loss recognition. International Financial Reporting Standards (IFRS) have been mainly developed in order to converge accounting information globally. However, the introduction of IFRS is attracting scholars to investigate their effect on accounting quality and, therefore, on earnings management (Zhang et al., 2013). In Libya, accounting practices are mainly influenced by regulatory factors and regulations (Shariea 2014).

Most of the LCBs are listed on the Libyan Stock Market (LSM) and, therefore, affected by LSM regulation. This requires that listed companies must prepare their financial statements in compliance with IFRS and requires that these statements have to be audited in accordance with International Auditing Standards (Kribat, 2009). However, it can easily be identified that IFRS/IAS is not applied by LCBs, although some claim that the accounts are being prepared accordingly (Barghathi et. al., 2017a). The LSM also requires listed companies to submit quarterly, semi-annual, and annual reports and to publish a summary of the financial position of the company in two local newspapers, one of which, in Arabic, must appear within one week of being approved by a general meeting (Article 23). Although companies are encouraged to list on the LSM, only 13 companies are listed and traded in the LSM[1], at the time of writing, including seven commercial banks. Article 75 grants listed companies that have at least 60 days of share trading during the year the following advantages: (i) tax relief from income tax for five years; thereafter 50% relief as long as the company is still listed; and (ii) 50% relief on custom and stamp duties.

Corporate governance, defined as "the system by which companies are directed and controlled" (Cadbury, 1992), also has a key role to play in establishing the culture within which financial reporting takes place. Prior research indicates that good corporate governance could have an influential impact on earnings management; audit committees, for example, "can oversee internal control for financial reporting and the quality of financial information" (Man and Wong, 2013, p. 409). Good corporate governance, in general, can reduce the adverse effect of earnings management on the quality of financial reporting which, in turn, helps in improving investors' confidence (Uadiale, 2012). More clearly, in the U.S. for example, good corporate governance means the "ability to mitigate listed companies earnings management activities" (Yang et al., 2012, p. 89). It is worth mentioning that a corporate governance code for commercial banks has been issued by the Central Bank of Libya and all commercial banks operating in Libya have to adhere to this code. This code was issued in 2006 based on OECD principles of corporate governance as well as the Basel Report on banking supervision for enhancing corporate governance for banking organisations with the aim to protect both shareholders and stakeholders (Zagoub, 2011). The next section reports and summarises the literature on the different methods by which the existence of earnings management can assessed.

[1] Listed companies can be viewed at http://www.lsm.ly.

3. Literature review

A clearer understanding of earnings management requires knowledge on how to detect it. The literature reports on the two broad approaches, quantitative and qualitative, by which earnings management can be assessed.

3.1 Quantitative Approach (Discretionary Accruals Identification)

The quantitative approach is mainly based on identifying discretionary accruals. Accruals can be measured as the difference between net income and cash from operations (Yang et al., 2012). Fundamentally, most earnings management activities are based on accruals because of their central role in accounting decisions. For example, selling on credit requires the creation of an accrual since the sale is recognized in the income statement accompanied by an accounts receivable, which is accrued in the balance sheet until the cash is received. Also, accruals are used as a basic principle[2], i.e. this matching is done in order to obtain a better measure of periodic economic performance than is provided by cash flows (Mohanram, 2003). In the same context, Sun and Rath (2011) suggest:

> "Fundamentally, more management discretions are often made through accruals. More accruals are in place simply because the accounting system creates accruals in order to recognize revenues when they are earned and match expenses to those revenues, irrespective of whether cash has been received or paid. This matching principle makes accounting earnings a better economic measure of firm performance than cash flows" (p. 128).

Accruals can be divided into two components; discretionary and nondiscretionary. Discretionary accruals are recognised as abnormal or managed accruals and are always connected to earnings manipulation. On the other hand, nondiscretionary accruals are recognised as normal or unmanaged accruals. (Kang and Sivaramakrishnan, 1995; Peasnell et al. 2000). Moreover, accrual

[2] IAS 1 requires the accrual basis for financial reporting purposes.

accounting as a means to manage earnings seems to be the preferred option for management, as accruals are difficult to observe compared to earnings management practised through real transactions (Young, 1999).

Sun and Rath (2011) suggest that it is easier for researchers to test for managing earnings through accounting choices rather than through real transactions.

Given the flexibility offered by GAAP, managers could manage earnings by choosing from alternative accounting methods within GAAP or by applying these methods in particular ways e.g. changing estimates of assets' lives. The former may be noticeable and thereby be spotted by the auditor. However, the latter could be a bit harder for an auditor to observe (at least in terms of motives) (Schipper, 1989). In this regard, Dechow (1994) blames the flexibility offered by GAAP for giving the opportunity to managers for earnings management.

Young (1999) considered testing for earnings management as a central issue in financial statement analysis. He added that managers are provided with a series of earnings management techniques that range from real operating decisions such as asset sales and changes in R&D expenses to financial reporting decisions such as accounting method changes and accrual choices. The latter, accruals choices, according to Young (1999), is a less costly mechanism that can be used to manipulate earnings.

Empirical studies for testing for the existence of earnings management mainly focus on the discretionary part of accruals by testing the discretionary components of reported earnings (Dechow et al., 1995). According to McNichols (2000), one of the fundamental issues of earnings management testing is measuring management's discretion in influencing reported earnings. In this regard, Stolowy and Breton (2004) argue that "[a]s profit differs from cash flow by the total of accruals, manipulation of the profit figure implies manipulation of the accruals" (p. 22). They also added that distinguishing between normal and abnormal accruals represents a challenge that researchers face (Stolowy and Breton, 2004). Separating out the discretionary and non-discretionary elements of accruals has been described by Mohanram (2003) as a “critical aspect” to measure for earnings management.

In the quantitative approach for earnings management detection, McNichols (2000) provided an overview of three techniques by which earnings management can be tested based on discretionary accruals namely; aggregate accruals, specific accruals, and earnings distribution after earnings management. However, the discussion of which is beyond the scope of this paper.

3.2 Qualitative Approach (Academic Approach)

In addition to the above approach to identifying earnings management, a second approach could be followed to test for earnings management. Researchers may resort to survey opinions of related parties to assess their perceptions of whether earnings are being managed.

The literature shows that researchers have carried out surveys to elicit professionals’ perceptions of earnings management. These include Baralexis (2004), who claims that adopting this approach enables researchers to conclude real “not hypothesized” motives behind such activity. Nelson et al. (2002) used a field-based questionnaire to elicit auditors’ recollections of specific managers’ attempts to manage earnings. They claimed that this approach provides transaction-level data on earnings management attempts and their consequences on auditors’ decisions. The accuracy of recollections is important, but cannot always be relied upon in field-based questionnaire. However, techniques have been developed to tackle the fallibility of human memory e.g. eliciting simple facts concerning recent events rather than asking leading questions or eliciting details of old events.

Also, an accurate recall could be encouraged by emphasizing the importance of the research and affirming the anonymity of responses (Nelson et al. 2002).

Baralexis (2004) based his study on a questionnaire to survey 100 experienced auditors and 100 experienced accountants. The questionnaire was designed with close reference to the relevant literature and consisted of eight questions exploring creative accounting in Greece.

Similar to Baralexis's work, Noronha et al. (2008) explored earnings management in China. They surveyed 11 accrual-earnings management techniques that might be used by Chinese companies. The questionnaire was distributed to 1400 companies. Their results indicated that earnings management is pervasive in China and that managers consider earnings management as reasonable and useful. Noronha et al. (2008) concluded that the prime incentive for earnings management in China is management promotion and compensation, which is inconsistent with prior literature that suggests that capital market pressure is the most important motivation for earnings management.

Another study which followed this approach was by Al-khabash and Al-Thuneibat (2009). Their study aimed at providing evidence on earnings management existence from the perspective of external and internal auditors in Jordan. A specially designed questionnaire was used. Their sample consisted of 61 internal auditors and 66 external auditors. The results were summarized as suggesting that external auditors believe that managers are involved in earnings management to increase and decrease income while internal auditors believe that managers are involved in earnings management to only increase income.

This paper adopts this qualitative approach to examine whether earnings management is being practiced by LCBs' managers. A questionnaire is used to elicit stakeholders' perceptions regarding the quality of LCBs' financial reporting as well as their views concerning the existence of earnings management. Their perceptions are also sought for whether LCBs' accountability has been discharged properly to shareholders as well as other stakeholders. Therefore, the paper tries to answer the following main research questions:

RQ1: How do LCBs' stakeholders perceive the quality of financial reporting of LCBs?

RQ2: To what extent, do LCBs' stakeholders think that earnings management is practiced by LCBs' managers?

RQ3: To what extent do LCBs' stakeholders think that LCBs' managers are accountable?

4. Research Design and Structure

As discussed and explained earlier, the qualitative approach was adopted to satisfy the research objectives of this paper; in particular a questionnaire survey was chosen as the means of data collection. A questionnaire survey is one of the most widely used methods in social science research (Blaxter et al., 2010), and, according to Sekaran (1992), it is an efficient method for data collection where it is reasonably clear to the researcher what information is required.

In total 193 questionnaires were distributed and collected personally. Questionnaires were attached to a covering letter stating the purpose of the study and encouraging participants to take part; it also identified the researcher and assured the anonymity and confidentiality of any information which respondents would provide.

Once questionnaires started to come back, the process of coding and keying them into an Excel spreadsheet was started. After feeding all the responses into the spreadsheet, a double check was made to ensure that all responses had been correctly entered. Table 1 summarizes the number of returned questionnaires categorized by different stakeholders.

Table 1: The Returned Questionnaires

Respondent Groups	Distributed Questionnaires	Returned Questionnaires	Response Rate
Preparers	56	27	48%

Auditors	54	27	50%
Regulators	31	20	64%
Users	52	28	54%
Total	**193**	**102**	**53%**

Note: this table shows the numbers of distributed and returned questionnaires, as well as the response rate according to each group. More details about the personal information of the respondents are presented in Table 2.

The questionnaire was designed to be answered by all stakeholders who, for the analysis process, were categorized into four groups: Preparers, Auditors, Regulators, and Users (see Table 1).

Once the responses were coded into an Excel spreadsheet as discussed earlier, the data was transferred to the SPSS statistical package for analysis. This study focuses on different stakeholders' perceptions regarding the earnings management practices in Libyan Commercial Banks; for this purpose, most questions were designed based on a five-point Likert scale which involves using non-parametric statistical tests due to the ordinal nature of the qualitative data (Saunders et al., 2012). In particular, this study uses the Kruskal-Wallis (KW) and Mann-Whitney (MW) tests. The KW test is used to identify whether any significant difference exists among the perceptions of the groups; if so, an MW test is carried out to determine which pairs of groups show significantly different perceptions. For further illustration, descriptive statistics, means and standard deviations[3], were also calculated to provide more insightful pictures of the perceptions.

5. Research findings

5.1 Personal Background of the Respondents

The first part of the questionnaire deals with general personal information about the respondents. This part's questions dealt with respondents' age, gender, professional qualification as well as their education and where it took place. It also sought information about experience that a respondent

[3] Means and standard deviations are, strictly speaking, not appropriate as measures of ordinal data, but their use is widespread and they arguably have reasonable information content subject to assumptions made about the intervals in the ordinal data.

might have had within the banking sector. Table 2 summarises the personal information about the respondents corresponding to their groups.

The total proportions of each individual group (Preparers, Auditors, Regulators, and Users) are 26.5%, 26.5%, 19.6%, and 27.5% respectively; most are male (90 out of 102 or 88.2%). Twenty eight (27.5%) are professionally qualified, mainly being members of the Libyan Accountants and Auditors Association (LAAA) (24 or 23.5%). Ninety (88.2%) of the respondents have an academic qualification higher than a Diploma which suggests a good basic knowledge of financial issues. Most importantly, 78 (76.5%) of the respondents have indicated that they have banking experience which again gives a reasonable level of assurance as regards to obtaining informed views about Libyan commercial banks (LCBs).

Table 2: Respondents' Personal Information

Statement	**Category**	**Groups**							
		Preparers		**Auditors**		**Regulators**		**Users**	
			%		%		%		%
Age	Less than 25	1	3.7						
	26-30	3	11.1			2	10.0	11	39.3
	31-40	15	55.6	5	18.5	8	40.0	10	35.7
	41-50	4	14.8	11	40.7	9	45.0	7	25.0
	Over 50	4	14.8	11	40.7	1	5.0		
	Total	**27**	**100**	**27**	**100**	**20**	**100**	**28**	**100**
Gender	Male	26	96.3	25	92.6	20	100	19	67.9
	Female	1	3.7	2	7.4			9	32.1
	Total	**27**	**100**	**27**	**100**	**20**	**100**	**28**	**100**
Professional Qualification	LAAA	6	22.2	12	44.4	1	5.0	5	17.9
	ACCA	3	11.1						
	AICPA			1	3.7				
	ICAEW								
	CIMA								
	Others	1							
	Total	**10**	**37.0**	**13**	**48.1**	**1**	**5.0**	**5**	**17.9**
Education	PhD			6	22.2			3	10.7
	Master	2	7.4			4	20.0	7	25.0
	Bachelor	20	74.1	19	70.4	14	70.0	15	53.6
	Diploma	3	11.1	1	3.7	1	5.0	3	10.7
	Other	1	3.7	1	3.7	1	5.0		
	Total	**26**	**96.3**	**27**	**100**	**20**	**100**	**28**	**100**
Location of highest qualification	Libya	23	85.2	20	74.1	19	95.0	25	89.3
	Other Arab country	1	3.7	5	18.5			2	7.1
	UK	2	7.4	1	3.7	1	5.0	1	3.6

	USA	1	3.7	1	3.7				
	Other								
	Total	**27**	**100**	**27**	**100**	**20**	**100**	**28**	**100**
Place of Work	Commercial Bank	27							
	Central Bank of Libya					14	65.0		
	Libyan Stock Market					3	20.0		
	Tax Authority					3	15.0		
	Audit firm			19	70.3				
	State Audit			8	29.6				
	Academic							15	53.6
	Others							13	46.4
	Total	**27**	**100**	**27**	**100**	**20**	**100**	**28**	**100**
Banking Experience	Less 5 years	9	33.3	15	55.6	3	15.0	24	85.7
	5-10	8	29.6	2	7.4	7	35.0	1	3.6
	11-15	3	11.1	2	7.4	4	20.0	2	7.1
	Over 15	7	25.9	8	29.6	6	30.0	1	3.6
	Total	**27**	**100**	**27**	**100**	**20**	**100**	**28**	**100**

Note: LAAA = Libyan Accountants and Auditors Association, ACCA = Association of Chartered Certified Accountants, AICPA = American Institute of Certified Public Accountants, ICAEW = Institute of Chartered Accountants in England and Wales, and CIMA = Chartered Institute of Management Accountants.

5.2 The Quality of Financial Reporting and Earnings Management

The objective of this section is to report the respondents' perceptions about the quality of financial reporting in Libya, as well as their awareness of earnings management. First of all, it asks about the implications of earnings management in relation to the quality of financial statements. Then four questions are asked to investigate whether there is a difference between private and public banks, and between listed and unlisted banks in terms of the application of earnings management. Afterwards, perceptions of the underlying reasons of why bank managers would engage in earnings management are investigated. Table 3 (Panel A) presents the responses relating to these questions

Table 3: Stakeholders' Perceptions about the Practice of, and Motivations for, Earnings Management
Panel A: K-W test

Q	Statement	N	Mean	SD	Group Means				K-W P-value
					PR	AD	RG	US	
1.1	Earnings management affects the quality of financial statements	99	3.96	.768	3.81	4.00	3.94	4.07	.734
1.2	Earnings management is practiced by private listed banks	98	3.35	.932	3.62	3.19	3.44	3.18	.101
1.3	Earnings management is practiced by private unlisted banks	97	3.31	.755	3.32	3.38	3.33	3.21	.822
1.4	Earnings management is practiced by public listed banks	94	3.11	.861	3.00	3.04	3.31	3.14	.622
1.5	Earnings management is practiced by public unlisted banks	93	3.01	.787	2.84	2.87	3.17	3.19	.331
1.6	Managers exercise earnings management to manipulate information communicated to shareholders	96	3.02	1.036	2.62	3.15	3.11	3.23	.166
1.7	Managers exercise earnings management for their own benefits	98	3.16	1.012	2.73	3.12	3.56	3.36	.058
1.8	Earnings management enables managers to better communicate economic information to stakeholders	97	2.74	1.044	2.65	2.76	3.06	2.61	.526
1.9	Managers exercise earnings management to manipulate information to regulators	97	3.22	1.033	3.04	2.96	3.39	3.50	.201
1.10	Managers exercise earnings management to manipulate information communicated to credit rating agencies	97	3.19	1.024	3.08	3.00	3.39	3.33	.524

Note: This table shows the mean and standard deviation (SD) for all respondents regarding questions about various issues related to earnings management. It also provides the mean for each group and the p-value for the Kruskal-Wallis (K-W) test. Groups are defined as; preparers (PR), auditors (AD), regulators (RG), and users (US) for each question. A * indicates significance at the 5% level.
A 5-point Likert scale was used in these questions. It ranged from 1= "Strongly disagree" to 5= "Strongly agree".

Stakeholders expressed a broad level of agreement, based on their mean scores, on the first four issues (Q 1.1- 1.4). All stakeholders agreed, in aggregate, that earnings management practices affect the quality of financial statements; they also showed similar scores regarding the practice of earnings management by private banks; they perceived that earnings management is practiced by private banks no matter whether they are listed or unlisted. Earnings management is also perceived by each stakeholder group to be practiced by public listed banks. Unlisted banks are, in aggregate, only perceived by the Preparer and Auditor groups not to be engaged in earnings management practices; this may suggest that from the viewpoint of these two groups there is an influence by the Libyan Stock Market on the public banks.

The other two groups (Regulators and Users) seem to perceive that earnings management is practiced by public banks regardless of whether they are listed or not. That is similar to their views regarding private banks. Some underlying reasons as to why bank managers may be involved in earnings management practices are discussed in the remaining six questions of Table 3 (Panel A and B). Questions as to whether bank managers exercise earnings management practices to mislead or satisfy shareholders or for their own benefits show different perceptions between the Preparers group and other groups. While Preparers tend to believe, on average, that bank managers do not engage in earnings management to either affect the shareholders or for their own benefit, other groups think that bank managers exercise earnings management for these reasons. This result suggests that, from the viewpoint of Auditors, Regulators, and Users, bank managers are involved in what is called "opportunistic earnings management" where managers engage in earnings management for their own benefit. The other type of earnings management is "informative earnings management" where bank managers manage earnings so as to better communicate the economic and financial situation of the bank. Notably, only the Regulators group think, on average, that this type of earnings management is practiced by the bank managers while other groups' mean scores are at the mid-point suggesting that, on balance, they do not think that this type of earnings management exists within Libyan Commercial Banks. Whether earnings management does exist to affect the information communicated to regulators is only doubted by the Auditors group although their mean score is very close to the mid-point (2.96). However, other groups' mean scores are over 3.00 confirming that, there is, on balance, a perception that earnings management could be practiced to send misleading information to regulators. Lastly, all groups agreed, on balance, that earnings management is practiced in order to affect the bank rankings supplied by the credit rating agencies.

Although the Kruskal-Wallis test does not show any significant differences between the stakeholder groups, the Mann-Whitney test results in Table 3 (Panel B) show that there are three significant differences; the first two are between the Preparers and Users groups, the third is between the Preparers and Regulators groups. Preparers and Users show a significant difference in views regarding the practicing of earnings management by private listed banks. Although both groups think, on average, that private listed banks are engaged in earnings management, the Preparers' mean score is slightly higher than that of Users: 3.62 and 3.18 respectively. Also, the Preparers group thinks that earnings management is not practiced to influence the shareholders; by contrast, the Users group believes that earnings management is practiced for such a reason. This result clearly refers to the existence of a trust issue between the Preparers and some other groups. The second significant difference occurred between the responses of the Preparers and Regulators groups; while the former think, on balance, that opportunistic earnings management does not exist, Regulators think, on average, that this type of earnings management does exist giving further evidence of a significant disagreement that refers to trust; this conflict has implications for the extent to which accountability can be seen to exist.

Table 3: Stakeholders' Perceptions about the Practice of, and Motivations for, Earnings Management
Panel B: M-W test

Q	Statement	K-W P-values	M-W p-values					
			PR-AD	PR-RG	PR-US	AD-RG	AD-US	RG-US
1.1	Earnings management affect the quality of financial statements	.734	.497	.426	.360	.788	.788	.821
1.2	Earnings management is practiced by private listed banks	.101	.073	.548	**.038***	.193	.848	.120

1.3	Earnings management is practiced by private unlisted banks	.822	.915	.964	.544	1.000	.386	.472
1.4	Earnings management is practiced by public listed banks	.622	.872	.296	.602	.257	.773	.323
1.5	Earnings management is practiced by public unlisted banks	.331	.852	.249	.186	.177	.174	1.000
1.6	Managers exercise earnings management to manipulate information communicated to shareholders	.166	.095	.114	**.045***	.965	.717	.686
1.7	Managers exercise earnings management for their own benefits	.058	.240	**.015***	.053	.096	.426	.373
1.8	Earnings management enables managers to better communicate economic information to stakeholders	.526	.721	.242	.850	.447	.540	.153
1.9	Managers exercise earnings management to manipulate information to third party regulators	.201	.749	.337	.158	.152	.056	.721
1.10	Managers exercise earnings management to manipulate information communicated to credit rating agencies	.524	.746	.404	.460	.219	.240	.833

Note: This table shows the p-values produced by M-W test between the different groups regarding questions about different issues related to earnings management. Groups are defined as; preparers (PR), auditors (AD), regulators (RG), and users (US) for each question. A * indicates significance at the 5% level.
A 5-point Likert scale was used in these questions. It ranged from 1= “Strongly disagree” to 5= “Strongly agree”.

It is worth noting here that the thinking behind asking the four questions, 1.2 - 1.5, is to examine the effect, if any, of the LSM’s requirements on financial reporting quality. It may be assumed that such requirements may put pressure on LCBs’ managers to produce a financial report in a certain way. It may also be reasoned, based on such requirements, that managers of listed LCBs are held more accountable relative to their unlisted LCBs counterparts. However, the results, as reported above, showed, on average, a perception that the LSM had a slight impact on LCBs’ financial reporting.

5.3 Perceptions about Factors that may Enable Earnings Management Practices

This section investigates factors that might give bank managers the opportunity to manage earnings, in other words, factors that influence financial reporting quality. Stakeholders groups were asked to express their agreement or disagreement regarding a set of nine factors. In order to identify any differences in views regarding these factors a KW test was performed. The test results are displayed in Table 4 (Panel A).

Table 4: Potential Factors that may Enable Bank Managers to Practice Earnings Management
Panel A: K-W test

Q	Statement	N	Mean	SD	Group Means				K-W
					PR	AD	RG	US	P-value
2.1	Local accounting practices	96	3.56	.904	3.71	3.48	3.84	3.32	.310
2.2	Ineffective external audit function	99	3.83	.904	3.64	3.78	4.05	3.89	.510
2.3	Poor corporate governance mechanism	99	3.91	.809	3.84	3.89	4.05	3.89	.888
2.4	Poor commercial and business knowledge of users	97	3.86	.829	3.64	4.00	3.89	3.89	.471
2.5	Ineffective monitoring by CBL	98	3.84	.870	3.68	3.93	3.83	3.89	.751
2.6	Ineffective monitoring by LSM	99	3.80	.869	3.76	3.74	3.79	3.89	.789
2.7	Ineffective monitoring by Tax authority	98	3.76	.897	3.67	3.81	3.89	3.68	.820
2.8	Difficulty of detection by auditors	98	3.54	1.007	3.37	3.56	3.68	3.57	.761
2.9	Difficulty of detection by users	99	3.67	.904	3.36	3.78	3.74	3.79	.380

Note: This table shows the mean and standard deviation (SD) for all respondents regarding questions about the factors may open the door for bank managers to be engaged in earnings management practices. It also provides the mean for each group and the p-value for the Kruskal-Wallis (K-W) test. Groups are defined as; preparers (PR), auditors (AD), regulators (RG), and users (US) for each question. The bold figure indicates significance at the 5% level.
A 5-point Likert scale was used in these questions. It ranged from 1= “Strongly disagree” to 5= “Strongly agree”.

All stakeholders groups were, on average, in agreement that the above factors could have enabled bank managers to manage earnings. Focusing on the average of responses, the results indicate that all factors were considered by respondents to have the potential to influence earnings management practices given the recorded mean values significantly over the mid-point. It is worth mentioning that the term “local accounting practices” does not refer to Libyan accounting standards; rather it refers to the current accounting practices that are accepted by local practitioners.

The lack of good corporate governance has been ranked as the factor that most assists in opening the door for bank managers to engage in earnings management practices; it was associated with the highest mean score of 3.91. On the other hand, the difficulty in detecting earnings management practices by external auditors was given the lowest mean score of 3.54.

To investigate whether there were significant differences in the views expressed, six MW tests were conducted and the results are summarized in Table 4 (Panel B).

Table 4: Potential Factors that may Enable Bank Managers to Practice Earnings Management

Panel B: M-W test

Q	Statement	K-W P-values	M-W p-values					
			PR-AD	PR-RG	PR-US	AD-RG	AD-US	RG-US
2.1	Local accounting practices	.310	.369	.569	.243	.130	.643	.126
2.2	Ineffective external audit function	.510	.719	.228	.296	.306	.390	.956
2.3	Poor corporate governance mechanism	.888	.821	.557	.838	.370	.738	.774
2.4	Poor commercial and business knowledge of users	.471	.119	.310	.254	.585	.739	.552
2.5	Ineffective monitoring by CBL	.751	.300	.563	.351	.879	.925	.841
2.6	Ineffective monitoring by LSM	.789	.933	.841	.407	.766	.329	.667
2.7	Ineffective monitoring by Tax authority	.820	.589	.394	.913	.567	.745	.526
2.8	Difficulty of detection by auditors	.761	.721	.349	.383	.531	.671	.917
2.9	Difficulty of detection by users	.380	.136	.227	.137	.972	.806	.786

Note: This table shows the p-values produced by M-W test between the different groups regarding questions about the factors may open the door for bank managers to be engaged in earnings management practices. Groups are defined as; preparers (PR), auditors (AD), regulators (RG), and users (US) for each question. The bold figure indicates significance at the 5% level.
A 5-point Likert scale was used in these questions. It ranged from 1= "Strongly disagree" to 5= "Strongly agree".

The MW tests results revealed no significant difference among the stakeholders groups. This was expected from an analysis of the mean scores of each group which showed a relatively strong level of agreement as the mean scores were well above the mid-point for each group. In other words, stakeholder groups acknowledge explicit weaknesses in the accountability process within the Libyan Commercial Banks. Such factors, if addressed, would arguably deter bank managers from engaging in earnings management, which then should lead to better quality financial reporting and thus an improvement in accountability. For example, stakeholder groups agreed that the local accounting practices can play a role in allowing earnings management practices among LCBs which may suggest a need to adopt International Accounting Standards (IAS/IFRS). In other words, accounting standards may have an important role in the accountability system. Views on how earnings management would thus be deterred and financial reporting would be improved, and ultimately, accountability enhanced, are examined in the next question (Q. 3).

5.4 Perceptions about Earnings Management Constraints

Having discussed the factors which may enable bank managers to engage in earnings management, this section aimed to identify certain elements that may constrain bank managers from practising earnings management. Respondents were asked to indicate their agreement or disagreement regarding certain procedures that if adopted might deter earnings management practices by LCBs. The responses to this question (Q 3) are summarized in Table 5 (Panel A).

Table 5: Earnings Management Constraints
Panel A: K-W test

Q	Statement	N	Mean	SD	Group Means				K-W P-value
					PR	AD	RG	US	
3.1	Adopting IFRS in practice	99	4.27	.586	4.36	4.00	4.37	4.39	**.046***
3.2	Applying good corporate governance	99	4.28	.607	4.24	4.07	4.37	4.46	.079
3.3	Educating and training of preparers	98	4.30	.735	4.28	4.04	4.42	4.46	.121
3.4	Educating and training of auditors	99	4.25	.733	3.92	4.22	4.26	4.57	**.025***
3.5	Educating and training of investors	99	3.88	.884	3.64	3.74	3.79	4.29	**.025***
3.6	Strengthen audit regulation	100	4.41	.552	4.31	4.30	4.32	4.68	**.015***
3.7	Strengthen oversight of financial reporting	100	4.36	.560	4.27	4.22	4.42	4.54	.100

Note: This table shows the mean and standard deviation (SD) for all respondents regarding questions about the earnings management constraints in the LCBs. It also provides the mean for each group and the p-value for the Kruskal-Wallis (K-W) test. Groups are defined as; preparers (PR), auditors (AD), regulators (RG), and users (US) for each question. Bold figure indicates significance at the 5% level.
A 5-point Likert scale was used in these questions. It ranged from 1= “Strongly disagree” to 5= “Strongly agree”.

Focusing on the average of the responses by different stakeholder groups, the results indicate a relatively strong agreement by all stakeholder groups regarding the potential value of all listed constraints since, with the exception of the fifth constraint “educating and training of investors” which had a mean score of 3.88, all constraints reported a mean score over 4.00. Table 5 (Panel A) shows that what was perceived to be the most important constraint that may have an important impact on earnings management practices was the strengthening of audit regulation.

It is notable that questionnaire respondents are not satisfied with the audit profession itself as their mean score of 4.41 (the highest in Table 5, Panel A) is very high. Consistent with the literature, Mahmud and Russell (2003), for example, concluded that the Libyan Accountants and Auditors Association (LAAA) had failed to achieve its objectives, for example, to establish or participate in research, conferences, and seminars or any activity that may have an influence over the profession’s development. It had also failed even to regulate itself let alone pursue its responsibility towards the public interest. El-Firjani (2010), on the other hand, indicated that:

> “[the accounting profession in Libya] is still in its early stages of developing corporate accounting practices and it appears to play no important role in retaining external influences on the accounting practices” (p. 208).

The statements (Q 3.4 and 3.6) reflect the questionnaire respondents’ agreement, on balance, that the audit profession in Libya has a lot of work to do, for example, to train auditors and to strengthen the profession through regulation. Given the important role of the external auditor in the accountability process, these results may reveal serious shortcomings in the current accountability system of LCBs as it is acknowledged by respondents that the audit profession is weak and auditors need to be trained.

Table 5 (Panel A) reveals a number of significant differences between stakeholder groups regarding the influence of certain constraints in deterring bank managers from being involved in earnings management practices. The overall results of the differences between stakeholder groups indicate that, although they agreed on the potential effect of the above-mentioned constraints, there were some significant differences among them about the degree of the impact of these constraints. To identify which pairs may have different views with respect to these constraints, six Mann-Whitney tests were conducted and the results are summarized in Table 5 (Panel B).

Table 5: Earnings Management Constraints
Panel B: M-W test

Q	Statement	K-W P-values	M-W p-values					
			PR-AD	PR-RG	PR-US	AD-RG	AD-US	RG-US
3.1	Adopting IFRS in practice	**.046***	**.024***	.867	.687	**.035***	**.018***	.899
3.2	Applying good corporate governance	.079	.364	.550	.116	.122	**.024***	.421
3.3	Educating and training of preparers	.121	.212	.799	.330	.099	**.025***	.491
3.4	Educating and training of auditors	**.025***	.368	.252	**.006***	.641	**.020***	.142
3.5	Educating and training of investors	**.025***	.744	.665	**.015***	.910	**.008***	**.034***
3.6	Strengthen audit regulation	**.015***	1.000	1.000	**.006***	1.000	**.018***	**.014***
3.7	Strengthen oversight of financial reporting	.100	.952	.347	.053	.299	**.048***	.361

Note: This table shows the p-values produced by M-W test between the different groups regarding questions about the earnings management constraints in the LCBs. Groups are defined as; preparers (PR), auditors (AD), regulators (RG), and users (US) for each question. Bold figure indicates significance at the 5% level.
A 5-point Likert scale was used in these questions. It ranged from 1= "Strongly disagree" to 5= "Strongly agree".

The above table (Panel B) reveals several significant differences between stakeholders groups. Most of these differences were between the Auditors and the other groups. For the first point, adopting IFRS in practice, the Auditors group has a significantly different viewpoint from all the other stakeholder groups. Also, the Preparers and Users groups have three significant differences regarding educating and training of auditors, educating and training of investors, and strengthening audit regulation. Regulators and Users groups significantly viewed the educating and training of investors, and strengthening audit regulation in different ways.

5.5 Perceptions Regarding the Accountability of LCBs' Managers

This section investigates perceptions as to whom LCBs' managers are held accountable. The rationale behind this question was to examine the extent to which a narrow or wide notion of accountability exists in LCBs. The results are presented in Table 6 (Panel A), and show no significant differences in perceptions according to a Kruskal-Wallis test performed to investigate whether any significant variation occurs between the responses of the various stakeholders groups

Table 6: Stakeholders' Perceptions about LCBs' Accountees
Panel A: K-W test

Q	Statement	N	Mean	SD	Group Means				K-W
					PR	AD	RG	US	P-value
3.1	Shareholders	102	3.94	.818	4.00	4.07	3.90	3.79	.531
3.2	Employees	102	2.91	1.082	2.78	2.85	2.75	3.21	.343
3.3	Current and potential customers	101	3.48	.901	3.52	3.56	3.25	3.52	.467
3.4	Central Bank of Libya	101	4.17	.788	4.26	4.07	4.00	4.29	.592
3.5	Tax authority	98	3.83	.813	3.84	3.69	3.79	3.96	.325
3.6	The Libyan Stock Market	100	3.76	.806	3.73	3.81	3.65	3.82	.914
3.7	Corresponding banks	99	3.63	.803	3.88	3.73	3.50	3.39	.136
3.8	Bank credit rating agencies	100	3.54	.892	3.56	3.63	3.60	3.39	.734
3.9	Media	101	3.00	1.020	3.15	3.11	3.10	2.68	.337
3.10	Academia and research centres	100	2.85	.999	3.04	2.92	2.95	2.54	.284
3.11	Society as a whole	99	2.84	.987	3.12	2.74	3.00	2.57	.212

Note: This table shows the mean and standard deviation (SD) for all respondents regarding questions about whom bank managers are accountable to. It also provides the mean for each group and the p-value for the Kruskal-Wallis (K-W) test. Groups are defined as; preparers (PR), auditors (AD), regulators (RG), and users (US) for each question. A * indicates significance at the 5% level.
A 5-point Likert scale was used in these questions. It ranged from 1= "Strongly disagree" to 5= "Strongly agree".

The results presented in Table 6 (Panel A) reveal a relatively strong level of agreement from the questionnaire respondents as to whom the LCBs' managers are accountable. However, questionnaire respondents consider that employees (Q 3.2), academia and research centres (Q 3.10), and society as a whole (Q 3.11) are, on balance, not considered as LCBs' accountees with the overall mean scores for these accountees being; 2.91, 2.85, and 2.84 respectively. It is notable from the mean scores reported in Table 6 (Panel A) that the Users group has a different view in regards to whether employees are accountees for LCBs in contrast to the Preparers, Auditors, and

Regulators groups who, on average, disagreed with this statement. This may, partially, be due to normative ideas held by academics who represent 53% of the Users group.

Ironically, the Preparers group think of academia and research centres as an accountee for bank managers while, on the other hand, the Users group (53% of which are academic) disagree, on balance, with that idea (by giving a mean score of 2.54), and so do Auditors and Regulators groups. Another area of disagreement appears when society as a whole was suggested as an accountee. The Preparers group agreed with this statement while the Auditors and Users groups disagreed.

It is also notable that the highest mean score of 4.17 in this Table was given to the Central Bank of Libya (CBL, Q 3.4). This result suggests a dual role for the CBL in this regard. On one hand, they are the owner of the public banks and on the other hand a regulator for both private and public banks. This may partially justify the high mean score given which suggests that the CBL is the main accountee of LCBs.

To see whether any two groups have any significant differences in perceptions, six Mann-Whitney tests were performed; the results are shown in Table 6 (Panel B). It can be seen that the only significant difference exists between the Preparer and User groups despite the fact that both groups agree that corresponding[4] banks are an accountee. However, one might think that the Users group may not have sufficient knowledge and awareness of what "corresponding banks" meant which may suggest a disagreement in responses between both groups.

Table 6: Stakeholders' Perception about LCBs' Accountees
Panel B: M-W test

Q	Statement	K-W P-values	M-W p-values					
			PR-AD	PR-RG	PR-US	AD-RG	AD-US	RG-US
3.1	Shareholders	.531	.991	.419	.269	.369	.214	.842
3.2	Employees	.343	.684	.758	.144	.847	.202	.114

[4] "Corresponding banks" is a term used within banking sector when a bank is being offered banking services by another bank.

3.3	Current and potential customers	.467	.915	.161	.863	.188	.956	.244
3.4	Central Bank of Libya	.592	.697	.207	.956	.473	.644	.197
3.5	Tax authority	.325	.344	.575	.549	.691	.084	.188
3.6	The Libyan Stock Market	.914	.917	.739	.773	.625	.871	.488
3.7	Corresponding banks	.136	.524	.094	**.039***	.344	.172	.638
3.8	Bank credit rating agencies	.734	.855	.888	.464	.992	.335	.386
3.9	Media	.337	.828	.975	.113	.933	.181	.165
3.10	Academia and research centers	.284	.698	.675	.077	.941	.164	.197
3.11	Society as a whole	.212	.170	.598	.060	.506	.450	.168

Note: This table shows the p-values produced by M-W test between the different groups regarding questions about whom bank managers are accountable to. Groups are defined as; preparers (PR), auditors (AD), regulators (RG), and users (US) for each question. A * indicates significance at the 5% level.
A 5-point Likert scale was used in these questions. It ranged from 1= "Strongly disagree" to 5= "Strongly agree".

6. Summary and Discussion

This paper tries to examine the existence of earnings management practices through a qualitative approach, specifically, through the direct interaction with LCBs' stakeholders i.e. whether they think earnings management is being practiced by LCBs' managers. First, the question about LCBs' financial reporting quality was asked, this was followed by a set of questions on earnings management followed by a question on to whom LCBs' managers are thought to be held accountable.

Earnings management behaviour is viewed as having a place in LCBs' financial reporting due to the existence of a range of factors. Stakeholder groups agreed, on balance, that such behaviour does exist because of local accounting practices, weak external audit, and poor corporate governance.

The above discussion leads to the assumption that financial reporting of LCBs implies managed earnings, which implies that the quality of LCBs' financial reporting would have been impaired given the existence of the factors that may facilitate such behaviour. This, on one hand, consistent with a huge stream literature that confirms the wide existence of earnings management practices.

On the other hand, leads to consideration of the accountability relationship of LCBs. If earnings management affects the quality of financial reporting and ultimately leads to providing biased information then LCBs' managers are not properly held accountable.

Due to the importance of an accountability system in almost all corporations, in particular those which have a wide range of stakeholders, e.g. banks, it is important to seek to remove impairments to accountability. The questionnaire results shed light on how, it is thought, by an informed body of opinion, accountability could be promoted. Specifically, the role of IFRS, corporate governance, and the external auditor were all supported with a slightly greater level of agreement that the latter could help in this regard.

In respect of the impact of adopting the international accounting standards (IFRS), questionnaire results showed, on average, agreement amongst LCBs' various stakeholders that IFRS would improve the accountability system of LCBs. Adopting IFRS would, it is thought, improve the quality of LCBs. This should, therefore, lead to LCBs' managers being held more accountable to LCBs' stakeholders. Although LCBs are required to apply IFRS, the current results show a strong agreement that IFRS need to be applied in practice. This results consistent with Barghathi et al., (2017a) who concluded that in reality IFRS is not applied although LCBs' managers claim that their financial statements are being prepared based on IFRS. Such results should be of interest to local regulators to seek ways be which IFRS can be properly applied by LCBs.

In addition, applying good corporate governance is seen by a range of LCBs' stakeholders to have an influence over the occurrence of earnings management and should therefore promote the quality of LCBs' financial reporting. Applying good corporate governance is, on average, agreed by all stakeholders to positively affect the accountability process of LCBs.

As discussed earlier, LCBs adopted a corporate governance framework that has been based on both on OECD principles of corporate governance as well as the Basel Report on banking supervision in order to protect both shareholders and stakeholders (Zagoub, 2011). However, current results clearly refer to a wide agreement that applying good corporate governance is required to enhance financial reporting quality. This may refer to either lack of proper application of the framework, however, LCB may need to reconsider that.

The need to provide training to auditors as well as strengthen audit regulation have been agreed upon by stakeholders in order to enhance the financial reporting quality and therefore accountability. This result clearly refers to the weak audit profession reported in literature, see for example Ahmed and Gao (2004), Mahmud and Russell (2003), and Barghathi et al., (2017b).

The results also indicated to the need for strengthen oversight over the financial reporting. The financial reporting of LCBs is currently being monitored by only few institutions including LCB and LSM. Based on such a result, local regulator may investigate the need to establish a separate body that is concerned with monitoring and controlling the financial reporting by LCBs. Such procedure is applied in some developed countries eg. PACOB in the USA and FRC in the UK.

References:

Ahmad, N. S. & Gao, S. S. 2004. Changes, problems and challenges of accounting education in Libya. *Accounting Education,* 13**,** 365-390.

Ahmed, A. S., Neel, M. & Wang, D. 2013. Does mandatory adoption of IFRS improve accounting quality? Preliminary evidence. *Contemporary Accounting Research***,** 30, 1344-1372.

Al-Khabash, A. A. & Al-Thuneibat, A. A. 2009. Earnings management practices from the perspective of external and internal auditors: Evidence from Jordan. *Managerial Auditing Journal,* 24**,** 58-80.

Anderson, D. R., Sweeney, D. J., Williams, T. A., Freeman, J. & Shoesmith, E. 2010. *Statistics for business and economics,* London, Cengage Learning EMEA.

Ascioglu, A. Hegde, S., Krishnan, G. & McDermott, J. 2012. Earnings management and market liquidity. *Review of Quantitative Finance and Accounting,* 38, 257-274.

Baralexis, S. 2004. Creative accounting in small advancing countries. *Managerial Auditing Journal,* 19**,** 440-461.

Barghathi, Y., Collison, D. & Crawford, L. 2017a. Earnings management in Libyan commercial banks: perceptions of stakeholders. *International Journal of Accounting, Auditing and Performance Evaluation*, 13, 123-149.

Barghathi, Y., Collison, D. and Crawford, L., 2017b. Earnings management and audit quality: stakeholders' perceptions. *Journal of Management & Governance*, pp.1-31.

Barth, M. E., Landsman, W. R. & Lang, M. H. 2008. International accounting standards and accounting quality. *Journal of Accounting Research,* 46**,** 467-498.

Beneish, M. D. 2001. Earnings management: a perspective. *Managerial Finance,* 27**,** 317.

Blaxter, L., Hughes, C. & Tight, M. 2010. *How to research,* Maidenhead, McGraw-Hill/Open University Press.

Bornemann, S., Kick, T., Memmel, C., & Pfingsten, A. 2012. Are banks using hidden reserves to beat earnings benchmarks? Evidence from Germany, *Journal of Banking & Finance*, 36, 2403-2415.

Burgstahler, D. & Dichev, I. 1997. Earnings management to avoid earnings decreases and losses. *Journal of Accounting & Economics* 24**,** 99-126.

Cadbury, S. A. (1992), *Report of the Committee on the Financial Aspects of* Corporate *Governance,* Gee and Co. Ltd, London.

Chen, F., Hope, O.-K., Li, Q. & Wang, X. 2011. Financial reporting quality and investment efficiency of private firms in emerging markets. *The accounting review,* 86**,** 1255-1288.

Cotter, D. 2012. *Advanced financial reporting: A complete guide to IFRS,* Harlow, Financial Times Prentice Hall.

Dechow, P. M. 1994. Accounting earnings and cash flows as measures of firm performance: The role of accounting accruals. *Journal of Accounting & Economics* 18**,** 3-42.

Dechow, P. M., Sloan, R. G. & Sweeney, A. P. 1995. Detecting earnings management. *The Accounting Review,* 70**,** 193-225.

Di Martino, G., Dicuonzo, G., Galeone, G., & Dell'Atti, V. 2017. Does the new European banking regulation discourage earnings management? *International Business Research*, 10, 45-56.

El-Firjani, E. 2010. *Investigating the corporate accounting regulation and factors influencing the adoption of International Accounting Standards (IAS) in Libya.* Ph.D., Liverpool John Moores University.

Elias, N. 2012. The impact of mandatory IFRS adoption on accounting quality: Evidence from Australia. *Journal of International Accounting Research,* 11**,** 147-154.

Habbash, M. & Alghamdi, S. 2015. The perception of earnings management motivations in Saudia Arabia. *Journal of Accounting in Emerging Economies*. 5, 122-147.

Habbash, M., Sindezingue, C. & Salama, A. 2013. The effect of audit committee characteristics on earnings management: Evidence from the United Kingdom. *International Journal of Disclosure and Governance,* 10**,** 13-38.

Holland, D. & Ramsay, A. 2003. Do Australian companies manage earnings to meet simple earnings benchmarks? *Accounting and Finance,* 43**,** 41-62.

Hong, Y. & Andersen, M. L. 2011. The relationship between corporate social responsibility and earnings management: An exploratory study. *Journal of Business Ethics,* 104**,** 461-471.

Jones, J. J. 1991. Earnings management during import relief investigations. *Journal of Accounting Research,* 29**,** 193-228.

Kang, S.-H. & Sivaramakrishnan, K. 1995. Issues in testing earnings management and an instrumental variable approach. *Journal of Accounting Research,* 33**,** 353-367.

Kribat, M. 2009. *Financial disclosure practices in developing countries: evidence from the Libyan banking sector.* Ph.D. Thesis, School of Accounting and Finance, University of Dundee.

Krishnan, G. V. 2005. The association between big 6 auditor industry expertise and the asymmetric timeliness of earnings. *Journal of Accounting, Auditing & Finance,* 20**,** 209-228.

Leventis, S., Dimitropoulos, P. E. & Anandarajan, A. 2011. Loan loss provisions, earnings management, and capital management under IFRS: the case of EU commercial banks. *Journal of Financial Services Research,* 40**,** 103-122.

Libyan Government (2005) The banking law No. 1.

Libyan Government (2010) Libyan commercial law No. 23.

Libyan Government (2010) The Libyan stock market law No. 11.

Magrath, L. & Weld, L. G. 2002. Abusive earnings management and early warning signs. *The CPA Journal,* 72**,** 50-54.

Mahmud, M.B. and Russell, A. (2003), An Empirical Investigation of the Development of Accounting Education and Practice in Libya, and of Strategies for Enhancing Accounting Education and Accounting Practice in Libya, Research in Emerging Economies, vol. 5, pp.197-236.

Man, C.-K. & Wong, B. 2013. Corporate governance and earnings management: A survey of literature. *The Journal of Applied Business Research,* 29**,** 391-418.

McNichols, M. & Wilson, G. P. 1988. Evidence of earnings management from the provision for bad debts. *Journal of Accounting Research,* 26**,** 1-31.

McNichols, M. F. 2000. Research design issues in earnings management studies. *Journal of Accounting and Public Policy,* 19**,** 313-345.

Mohanram, P. S. 2003. How to manage earnings management? *Accounting World,* Oct**,** 13-19.

Nelson, M. W., Elliott, J. A. & Tarpiey, R. L. 2002. Evidence from auditors about managers' and auditors' earnings management decisions. *Accounting Review,* 77**,** 175-202.

Noronha, C., Zeng, Y. & Vinten, G. 2008. Earnings management in China: An exploratory study. *Managerial Auditing Journal,* 23**,** 367-385.

Palepu, K. G., Healy, P. M. & Bernard, V. L. 2000. *Business analysis and valuation: using financial statements* Cincinnati, Ohio, South Western College.

Peasnell, K. V., Pope, P. F. & Young, S. 2000. Detecting earnings management using cross-sectional abnormal accruals models. *Accounting and Business Research,* 30**,** 313-326.

Saunders, M., Lewis, P. & Thornhill, A. 2012. *Research methods for business students* New York, Pearson.

Sawan, N. & Alsaqqa, I. 2013. Audit firm size and quality: Does audit firm size influence audit quality in the Libyan oil industry? *African Journal of Business Management,* 7, 213-226,

Sawan, N., Alzeban, A. 2015. Does Audit Quality in Libya Meet the International Standards Levels? *International Journal of Business and Management,* 10, 155-167.

Schipper, K. 1989. Earnings management. *Accounting Horizons,* 3**,** 91-102.

Sekaran, U. 1992. *Research methods for business: a skill-building approach,* New York; Chichester, John Wiley.

Shareia, A. 2014. The Libyan accounting profession. *International Journal of Social, Behavioral, Educational, Economic, Business and Industrial Engineering,* 8, 3759-3766.

Stolowy, H. & Breton, G. 2004. Accounts manipulation: A literature review and proposed conceptual framework. *Review of Accounting and Finance,* 3**,** 5-92.

Sun, L. & Rath, S. 2011. Earnings management research: A review of contemporary research methods. *Global Review of Accounting and Finance*, 1**,** 121-135.

Uadiale, O. M. 2012. Earnings management and corporate governance in Nigeria. *Research Journal of Finance and Accounting*, 3**,** 1-10.

Yang, J., Chi, J. & Young, M. 2012. A review of earnings management in China and its implications. *Asian-Pacific Economic Literature,* 26**,** 84-92.

Young, S. 1999. Systematic measurement error in the estimation of discretionary accruals: An evaluation of alternative modelling procedures. *Journal of Business Finance & Accounting,* 26**,** 833-862.

Zagoub, A. A. 2011. *Corporate governance in Libyan commercial banks*. Ph.D. Thesis, University of Dundee.

Zakari, M. and Menacere, K. 2012. The challenges of the quality of audit evidence in Libya, *African J. Accounting, Auditing and Finance*, 1, 3–24.

Zeghal, D., Chtourou, S.M. and Fourati, Y.M., 2012. The effect of mandatory adoption of IFRS on earnings quality: Evidence from the European Union. *Journal of International Accounting Research*, *11*, pp.1-25.

Zhang, Y. Uchida, K. & Bu, H. 2013. How do accounting standards and insiders' incentives affect earnings management? Evidence from China. *Emerging Market Review*, 16, 78-99.